

Message Text

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17

ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FEA-01 PA-01

PRS-01 /104 W

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R 170835Z DEC 75

FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC 3512

INFO AMEMBASSY LONDON

AMEMBASSY MADRID

47*,0 /AMEMBASSY PARIS 3726

AMEMBASSY ROME

USMISSION OECD PARIS UNN

C O N F I D E N T I A L ALGIERS 3600

DEPARTMENT PASS EXIMBANK FOR MORAN

E.O. 11652: GDS

TAGS:ENRG, EFIN, AG

SUBJ: ALGERIANS PLAN ANOTHER MAJOR BORROWING

REF: ALGIERS 3126

1. SUMMARY. ALGERIAN NATIONAL OIL AND GAS COMPANY, SONA-
TRACH WILL REPORTEDLY ATTEMPT TO ARRANGE \$400-\$500 MILLION
LOAN IN EARLY 1976 TO FINANCE GAS DEVELOPMENT. LOAN EFFORT
REPRESENTS REAFFIRMATION OF ALGERIAN DECISION TO ACCEPT RISK
INVOLVED IN LNG DEVELOPMENT AND PRESS AHEAD. END SUMMARY.

2. EMBASSY INFORMED BY REPRESENTATIVES OF MANUFACTURERS HAN-
OVER TRUST THAT SONATRACH PREPARING MAJOR EURODOLLAR BORROW-
INF IN FIRST QUARTER OF 1976. ACCORDING TO SOURCE, SONA-
TRACH WILL SEEK \$400-500 MILLION ON EURODOLLAR MARKET TO
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FINANCE LNG PLANT CONSTRUCTION. INITIAL LOAN DISCUSSIONS

CONCLUDED IN ALGIERS ON DECEMBER 12.

3. ACCORDING TO BANK REPS, SONATRACH HAS BEEN GIVEN TOP PRIORITY BY GOA IN SEARCH FOR FUNDS. FINANCE MINISTER MAHROUG SAID TO HAVE FORMALLY NOTIFIED TWO LEADING ALGERIAN FOREIGN EXCHANGE BANKS ON NOVEMBER 7 THAT SONATRACH ALONE HAD AUTHORIZATION TO UNDERTAKE NEXT EURODOLLAR BORROWING. BANKS WERE TOLD TO TURN DOWN FOR MOMENT ALL REQUESTS FROM OTHER NATIONAL COMPANIES FOR EURODOLLAR FINANCING. SONATRACH NOW SAID TO BE PLANNING MISSION TO U.S. IN JANUARY OR FEBRUARY TO PERSUADE U.S. BANKS TO PARTICIPATE IN ISSUE.

4. BANK REPS UNHAPPY WITH INITIAL SONATRACH ATTITUDE ON RATES. PREVIOUS ALGERIAN BORROWING (REFTEL) WAS DONE AT ONE AND ONE-HALF TO ONE AND FIVE-EIGHTS OVER LONDON INTER-BANK OFFICIAL RATE. ALGERIANS REPORTEDLY INSISTING AT THIS POINT THAT ONE AND THREE-EIGHTS IS ALL THEY WILLING TO PAY. BANKERS BELIEVE RATE QUESTION IS CENTRAL TO SUCCESS OF NEXT BORROWING ATTEMPT. IF ALGERIANS INSIST ON LOW RATE, THEY MIGHT GET \$200 MILLION FROM MARKET; WHEREAS, AT ONE THE THREE-QUARTERS THEY MIGHT OBTAIN FULL \$500 MILLION SOUGHT.

5. MANUFACTURERS HANOVER REPS EXPRESSED OPINION THAT ALGERIANS WOULD TRY ANOTHER BORROWING IN 1976 IF AND WHEN SONATRACH EFFORT SUCCESSFULLY COMPLETED. THEY BELIEVED, HOWEVER, THAT THIS SECOND LOAN WOULD HAVE TO WAIT UNTIL LATTER HALF OF YEAR. EVEN THEN, SECOND LOAN LIKELY TO BE DIFFICULT TO PLACE AT ANY RATE OF INTEREST.

6. COMMENT: IN GIVING SONATRACH THE GO-AHEAD ON LNG BORROWING, ALGERIANS APPEAR TO HAVE REAFFIRMED DECISION TO GIVE LNG TOP PRIORITY, AND TO PUT OTHER DEVELOPMENT NEEDS LOWER ON THE LIST. SONATRACH OFFICIALS REALIZE THAT LNG DEVELOPMENT IS A GAMBLE. THE TECHNOLOGY HAS PROVEN HARD TO CONTROL, DELAYS HAVE BEEN ENCOUNTERED IN LNG CONSTRUCTION NOW UNDERWAY, AND INFLATIONARY EFFECT ON LNG EQUIPMENTS COSTS HAS BEEN FAR BEYOND EXPECTATIONS. NEVERTHELESS, IT LOOKS AS THOUGH ALGERIA IS READY TO CONTINUE
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TO PUT ITS CHIPS ON LNG DEVELOPMENT, AND TAKE THE RISK.
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Message Attributes

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Disposition Event:
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